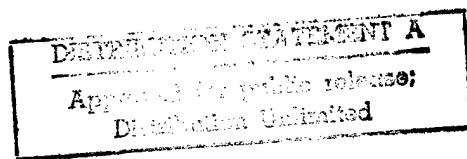


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JPRS-JAR-87-004
9 JULY 1987



JPRS Report



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EAST ASIA

JAPAN

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TOWARD LDP COALITION GOVERNMENT OF FIVE CONSERVATIVE PARTIES

Tokyo SENTAKU in Japanese Jan 87 pp 58-61

[Excerpts] Referring to the overwhelming victory in the double elections, Prime Minister Nakasone stated, "304 seats represents the start of the 1986 order; the LDP has spread its wings to the left, widening its support as far as the middle-of-the-road right." This victory has resulted in a major shift from the 1955 setup--which pivoted around the confrontation between the LDP and the JSP--to an era of conservative party rule in a controlled society, bringing about major changes not only in Diet operations, but in various aspects of the policy-making process as well.

In this process, attention is being drawn to the enlargement of factions that can influence policy determination, and from the organizational standpoint, they have begun to change from groups which are "units to which power is apportioned" to the actual standing of a political party.

Because of party enlargement, it is only natural for the factions to become enlarged, e.g. the Tanaka faction, which is the largest of all, has an upper-lower house membership total of 140 which greatly exceeds the 127 members of the JSP, the largest minority party, and the 89 members of the Miyazawa faction, the 87 members of the Nakasone faction and the 84 members of the Abe faction are greater than the 82 members of the Clean Government Party. Even the minor Komoto faction with 34 members ranks alongside the Japan Democratic Socialist Party.

Tanaka Faction Organized Like A Political Party

That a change in quantity will cause a change in quality is not limited only to the laws of nature.

It is no exaggeration to say that the structural change of the various factions occurred rapidly as their sizes expanded and the factions began to reorganize as "political parties."

As in the past, the factions were devoted to strengthening their internal structure, and like the Tanaka faction (Mokuyo Club) during the period when the former prime minister was healthy, the factions were nicknamed "general

hospitals" for striving to systemize issues from the recruitment of young politicians to processing petitions.

But with the faction leader stricken with illness, it is not an easy task to maintain the unity of the faction's 140 members who are involved in the confrontation of the Takeshita and Nikaido groups.

Even among the various factions which allocated the traditional year-end allowance, the Tanaka faction became a topic of conversation for awhile with its change of practise. In the past, the former prime minister exerted a strong influence, like a "single proprietor in business," and "higher echelon donations" were made by Tanaka and some of the key officials, but during the year end last year, the faction officers, including president Nikaido, and former cabinet members adopted the joint responsibility method. The fact that the former prime minister's supporters, who were afraid of others becoming "estranged from Tanaka," gave each Diet member a separate envelope containing ¥1 million in addition to the year-end allowance, substantiates the shock from the "modernized" use of the faction's funds.

This applies not only to funds. During the research meeting in September, the members established bylaws which were likened to party rules of a political party, established a vertically proportional organization of a president, permanent secretariat and general secretariat, and arranged for the formation of an advisory council consisting of elders. Furthermore, Tatsuo Ozawa was held over as the chief secretary, but the three posts of "general council," "policy" and "general affairs" were established under the general secretariat.

There is no denying that difficulty was encountered in the attempt to establish "domination by the Takeshita group" in the newly established "permanent secretariat," resulting in the selection of Keizo Kobuchi of the Takeshita group as its chairman and Ganri Yamashita of the anti-Takeshita group as deputy chairman, but in order to manage a large organization of 140 people, the need for a structure similar to a "political party headquarters" has arisen.

The Kochi Kai (Miyazawa faction) which "supports Miyazawa" is also keeping pace.

At the general meeting on 6 November, five committees, namely "policy," "general council," "finance," "organization" and "liaison and public relations," were established, and the faction is organized so that its overall management will be deliberated by the "seven magistrates," consisting of the five committee chairmen and the two elders, Kuniyoshi Saito and Ichiro Yamauchi (lower house) who are in charge of "general matters." With the appointment of Eisaku Sumi, who passed away recently, as the chief secretary to serve as the "faction's secretary general," the faction was aiming to change its organization from a "Kyoto nobility group," consisting mostly of bureaucrats, to a fighting group.

On the other hand, the Seiwa Kai, which consisted of members who were strongly attached to former prime minister Fukuda during the era when Fukuda was its president, has undergone a generational change to become the Abe faction, and

the positions of mediators and chief secretary have been newly created. As mediators, Mutsuki Kato, Yoshiro Mori and others who hold cabinet or party positions were omitted and Takashi Hasegawa, Masajuro Shiokawa (incumbent Minister of Education) and Toshio Horiuchi (upper house) were selected. Hiroshi Mitsuzuka, who has been elected six times and is regarded as a man of action, was selected as chief secretary.

Immediately after his appointment, Mitsuzuka declared, after the manner of the Tanaka faction: "We aim to change the faction into a 'general hospital.'"

From the standpoint of factional structures, the differences are small whether it be the Nakasone faction which is the faction in power or the fast declining Komoto faction.

Rush To Form "Horizontally Proportional Organizations"

Appointments to positions within the factions strengthened the vertically proportional organizations, but regarding horizontally proportional organizations, such as by number of successful elections, the rush to form small groups within the factions has been conspicuously noted.

As a result of the faction increasing by nearly 20 members during the double elections, the "Nanoka Kai," which was formed by those elected to the lower house after 1969 and which served as the nucleus of the Tanaka faction, is progressively dissolving, with such formations as the "Hifumi Kai" consisting of members elected from one to three times and the "Isshin Kai" consisting of members elected from four to six times.

Stirred by these movements, the young upper house members formed the "Iroha Kai," and a network of small groups, both vertically and horizontally, is being formed, such as the "Wakatake Kai" for lower house members elected for the first time and the "Sakae Kai" for members with cabinet experiences.

The same movements were observed in other factions. In the Miyazawa faction, lower house members elected one to three times formed the "Suiyo Kai" and those elected four to six times the "Daiju Kai." In the Abe faction, members with cabinet experience have their "Juichinichi Kai," those elected for the first time the "Hachijuroku Kai" and the "Tanjo Kai" by months, for those with birthdays in the same month.

Even in the Nakasone faction, the young Diet members have their "Sansei Kai," but what has truly drawn the attention of this faction is the activities of Michio Watanabe who has formed the supra-faction, "Onchi Kai," with the Nakasone faction as the core. This group started off with 30 members in 1980, expanded suddenly to 48 members during the 1986 double elections and with the recent addition of Takehiko Endo and Hiroko Terauchi from the Nakasone faction and Yoshiyuki Hozumi from the Komoto faction, it has a membership of 51. The number 51 is significant because it means that the "support of 50 Diet members," which is required for any candidate to be nominated for the party presidency, has been attained.

Watanabe has taken a cautious stance with the remark: "Nothing is planned," but the movement of the "Onchi Kai" has become the "eye of the typhoon" in post-Nakasone politics.

Kazuo Tamaki (Director General of Administrative Affairs in the Prime Minister's Office), who has organized the "Shuseiken," has plans of penetrating the Komoto faction in preparing for factional reorganization, and under the "1986 order," the LDP is headed for the "era of factional political parties" rather than the "dissolution of factions."

Of course, the cry to dissolve factions at one time by the "voice of Heaven" (former prime minister Ishibashi) has completely died down and the recent double elections are not the only occasion marking the golden era of the factions.

The presidential preliminary election system which was introduced in 1977, based on Miki's proposal to "dissolve the factions," ironically invited the "nationwide diffusion of factions" (former prime minister Fukuda) and this led to events whereby the phenomenon of factions becoming political parties could not be avoided.

What made it a bigger issue was the introduction of the system of proportional representation with a restricted roster which replaced the nation-at-large system for the upper house election. Because the recruitment of party members and booster club members greatly influenced the order of the ranking of the candidate's roster, the competition to recruit supporters developed among the candidates and factions.

Taking into account the struggle among the new leaders for the next presidency, in late 1985 the LDP party membership reached an astounding 3,645,800 and the party supporters numbered six times the 75,000 of the previous year or 457,000.

The LDP party members whose number fluctuates depending on whether a presidential preliminary election is held or not are called "soap bubble party members," but still yet the LDP's organizational strength is overpowering when compared with the minority parties which, at best, total about 300,000 members.

Even with the competition to gain booster club members by the candidates for proportional representation, the candidates have gained 3 to 5 million members, and it is said that the number of members recruited by 24 candidates exceeded 60 million. Of course, there are cases of overlapping and inaccurate tabulation of unexpectedly subscribing party members or booster club members, but in the midst of the activities of the minority parties being in a state of stagnation, the organizational machinery of the LDP alone is moving steadily.

Even with the recent double elections, when the various parties with their limited issues "pitted their strength," the force of the LDP, which took advantage of its characteristic as a Dietman's political party and which was strengthened with its organizational power, crushed both the organizationally weak JSP and Japan Democratic Socialist Party, and the Komeito and JCP, which

were said to be well organized political parties, barely held their ground, giving proof of the LDP's overwhelming victory.

This is to say that the expansion of the LDP's party force, brought about by the factions being strengthened like political parties, and the increased acceleration of the factions turning into political parties from this absolute majority are the overlapping movements of the power structure which the prime minister called the "1986 order."

Unique Flexibly Structured Constitution of Conservative Party Being Lost

Another phenomenon supporting the change of factions turning into political parties is the progress of the factional systemization in the rural areas ever since the introduction of the presidential preliminary election.

Even in the rural areas, the four faction leaders, "Abe, Takeshita, Miyazawa" and Watanabe, are competing to form booster clubs, and with respect to political funds, the trend is to decentralize in the rural areas.

According to the Mainichi Shimbun survey (estimate given in the 14 November 1985 morning issue) on political funds received in the rural districts in 1985, Abe topped the field of new leaders who received funds in the rural areas with Y180,390,000, followed successively by Miyazawa with Y127,970,000, Watanabe with Y95,190,000 and Takeshita with Y30,960,000. According to the records compiled by the Ministry of Home Affairs, Takeshita had topped the list with Y770 million, but the figures for his support from the rural areas were small because a good portion of the rural booster club organizations, established throughout the nation, were not properly reported, and the small fund was interpreted to mean an advancement in factional organization.

In any case, the Asahi Shimbun statistics for both the urban and rural areas indicated Abe collecting Y920 million, Takeshita Y800 million, Miyazawa Y650 million and Watanabe Y730 million, and this substantiated the notion that the qualification of an influential politician was his ability to raise funds.

This "influence" is poles apart when compared with the days of Shojiro Kawashima who, besides limiting the amount of contributions, considered the proper size of a faction to be 25 members.

One of the main reasons given in relaxing the limitation of political funds is the change in the function of the factions to seek new talent. (Book "Politics of the LDP" by Seizaburo Sato and Tetsuhisa Matsuzaki.)

In order to scout promising politicians, it was not unusual to have "totally supported candidates" who were furnished the entire amount of election funds by the faction, but today instead of "funds," the faction's first task is to offer "trust and confidence."

Even if the party's formal recognition is pending, a conservative, unattached candidate will be granted "trust and confidence" as against a "fly-by-night candidate," when "faction approval" is obtained, and funds will be procured

easily from the "supporters club" which has mobilized the faction's fund network. The analysis of the book is that by having the faction emphasize "trust and confidence" over "money," the limitations on funds is reduced and the promise of "rewards because of factional strength" is made easier. These points have been amply proven by the large advances of the new candidates at the recent double elections.

However, the issue is not the birth of mammoth factions, but the change in the constitution for political parties from the heavily grown factions.

The secret of conservative rule which had dominated post-war politics, except for one period, has been attributed to the "flexible structure" of the party's constitution, based on the union of the gentle factions. It is true that as a result of the depth of the conservative party strength, which is like the elastic structure of the super multistoried building designed to absorb the shock waves of any earthquake, a change in political power attuned to the times has become a possibility and conservative power has been regenerated.

Although the mammoth growth and change to political party size of the factions led to the absolute majority of the "1986 order," the occurrence of the changing quality of the traditional "flexible structure" cannot be overlooked.

Today the assertive right of the elders who served as the lubricant for the "flexible federation of factions," or the "control by the elders" has been rejected, and the attraction of the casting vote during deadlocks between factions, which was exploited by the middling factions, has disappeared.

The actual state of the "1986 order," whereby the assertive power of the minority parties receded conspicuously when the majority party gained a "307 versus 200 Diet seat advantage, has transformed the era of five large, conservative factions into that of five conservative parties.

Uncertainties on the Status of the "1986 Order"

From its implication, the making of a new political order after Nakasone, that can be predicted even before or after the Venice summit in June, will mean the reconstruction of a coalition government based on "five conservative parties."

Still, the shift of power within this switchover from a "union of factions" to a "coalition of political parties" will be experienced for the first time under conservative rule.

The capabilities of the three men, Miyazawa, Takeshita and Abe, who have their sights on the post-Nakasone era, are extremely close and at the present stage, it is extremely difficult to accurately predict a new political power.

Even if Takeshita succeeds in solidifying the Tanaka faction, the "logic of numbers" alone will not necessarily give the faction precedence because of the intensification of movements in the Reagan administration, high yen recession and unemployment issues.

In comparison with Prime Minister Nakasone, who forcibly pushed through the "general reexamination of post-war politics in Japan," the three factional leaders lean towards consensus politics.

Regardless of who forges ahead in campaigning, the nature of the new politics will assume a troika arrangement of "Abe, Takeshita and Miyazawa" and a strong possibility exists of a group leadership organization being established.

The following may depend on the character or the political environment of the three new leaders, but if among the four large factions (excluding the Komoto faction from the five large factions for lacking the number to compete in the party presidential race) turning into political parties, one faction should turn uncooperative, then the foundation of the political power will become unstable.

On the other hand, even though there are advantages to size, if the political party factions should stray from the center of power, it will be an extremely difficult task to maintain their great strength.

With Deputy Prime Minister Kanemaru bedridden, there is no one in sight to steer the troika arrangement, although it is ready to move.

And the more mammoth the "1986 order" gets to be, the more the party center will lack the centripetal force, and it cannot be denied that the development of the political leadership to cope with this changeover period is becoming difficult. The post-Nakasone era has uncertainties on the state of the "1986 order."

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THREE POLITICAL PACESETTERS OF 1987 EXAMINED

Tokyo SENTAKU in Japanese Jan 87 pp 44-45

[Text] (LDP) Vice President Shin Kanemaru's health condition is puzzling. After he was transferred from the Tokyo Women's Medical College to the Juntendo University Hospital, an informer spread a rumor in political circles that Kanemaru was seriously ill from cancer: "His cancer is advancing. He had a stomach operation in the Women's Medical College, then part of his prostate was removed at the Juntendo due to the spreading of the stomach cancer. Kanemaru is in more danger than Tanaka."

On the other hand, there still persists a view, although a bit too optimistic: "That's not so. Kanemaru ran for refuge to the hospital as he was driven out of his mind by the development of a scheme to prop up a transitional Kanemaru cabinet, which was intended go bring Kanemaru to the front in order to destroy a burgeoning plot to create a transitional Nikaido cabinet. It's only a political illness".

Kanemaru's health condition is first class information that political circles now covet more than anything else, since the progress of his illness directly affects political trends. If the alleged cancer turns out to be red, Kanemaru's side's wishful prospect of returning to his political duties by the end of January" will be actually impossible and the leading key man who has influence over the 1987 political situation will step down from the stage.

If Kanemaru should happen to leave the scene, who will assume the role of a political pacemaker after him? Prime Minister Nakasone's will to continue pitching does not show any sign of weakening. The propaganda for Nakasone's esthetics that he will not "get infatuated with political power" is unabashedly broadcast by sources closely affiliated with the prime minister, but everyone knows such a statement is simply a smoke screen. New leaders on the other hand, are still locked in the phenomenal triangular struggle without a foreseeable prospect of undoing it.

As one of the post-Kanemaru key men, Michio Watanabe is increasingly fortifying his drive. "Don't worry. He will not run for the presidential office in the next round. However, the ONCHIKAI faction has real power," was the usual openness of the Watanabe school. Indeed, the ONCHIKAI, a

policy group led by Watanabe, has suddenly expanded to a large family of 51 members after having 10 new and old face candidates elected in the double elections held last year. His ability to raise political funds for fiscal 1985 was comparable to the three new leaders, and his 730 million yen outdid Finance Minister Miyazawa's 650 million yen (Mainichi Shimbun).

On 18 November last year, when a party was held for the No. 2 man of the ONCHIKAI, Kabun Muto (former agricultural minister), to celebrate the publishing of his book, not only Miyazawa, Secretary General Takeshita and General Council Chairman Abe, but also Policy Research Council Chairman Masayoshi Ito, former Minister of MITI Toshio Komoto and others were anxious to make an appearance. It was quite obvious that they did not come to the party for Muto to observe the social graces but to make a "love call" to Watanabe who stands behind Muto.

Watanabe's position was further strengthened by his announcement to pass up the opportunity to run for president in the next round. Watanabe is no doubt thinking of acting as a person who at the climax, will, make the winning hit by picking out one of the three-man race of Abe, Takeshita and Miyazawa. This is what Nakasone did more than 14 years ago; he played a decisive role to establish the Tanaka administration by siding with Kakuei Tanaka's faction at the final stage of the Tanaka-Fukuda war.

When that takes place, the Nakasone faction as usual will be greatly shaken, but predictably it will follow the lead of Watanabe for fear of splitting. If everything goes according to expectations, Watanabe will ask for the post of General Secretary as a reward and presumably he intends to go [for the premiership] "one after the next." Watanabe declines to comment on the three new leaders.

"I cannot tell who acts like an elder brother and who acts like a younger brother."

He cleverly keeps equal distance from the three of them and will concentrate on enhancing his own value for a while. However, considering Watanabe's hitherto intimate association with the HIROIKEKAI (Miyazawa faction) and Miyazawa's most advanced age with a shorter service expectation, it is certain that Watanabe has an item to collude with Miyazawa as his first target.

However, even for Watanabe, Nakasone's retirement date is difficult to read. Now that the political power of Kanemaru is unsteady, Chief Cabinet Secretary Masacharu Gotoda, the second key man, is rightfully the staunchest right wing power steering the timing of the ending. Gotoda himself has no reservation about candidly saying, "I am the Chief Cabinet Secretary chosen to ring down the curtain."

It was also Gotoda who laid a condition to Kanemaru and Takeshita last summer when the party president's tenure extension issue provoked a dispute within the party.

"For the sake of saving the Nakasone government from dishonor, please contain the length of the extension to one year."

That in itself does not necessarily make him a supporter of early retirement.

It is known that Gotoda is concerned about the insufficient competence of the new leaders. However, recently he was heard to say: "I don't mean to hurt Take, but Miyazawa is after all, the best choice, judging from his ability. There's a big difference."

However, it is uncertain how much he expressed his true feeling by this remark. Placing himself in Nakasone's shoes. He even appears to be deploying a tactical plan to disturb the three-headed race. Said Nakasone at the end of last year as he entered the fifth year of his administration, in response to a question regarding his will to stay in power, "I cannot tell when I will get tired, but a politician must be a die-hard. Besides (I) have an excellent guide."

Everyone admits that Nakasone meant Gotoda as the person who plays the role of his guide. The Nakasone-Gotoda three-legged race is getting stronger. Furthermore, Gotoda strongly sympathizes with the Nakasone's charting for "the overall settlement of accounts for postwar politics." It should be nobody but Gotoda who serves as the strategist to make a frontal breakthrough if a chance for reextending Nakasone's tenure comes in sight.

The third key man, something of a lightweight compared to the other two, is Policy Research Council Chairman Ito who is the only one without presidential aspirations among the three top-ranking officials of the party. Ito is close to Nakasone. During the personnel reshuffle of last year, Nakasone appointed him to one of the three top positions, ignoring the Miyazawa faction's wishes. Indeed, it is hard to see what brings good luck. Now, Ito has proven himself to be invaluable as an interface between Nakasone and Miyazawa.

In the past, Ito was Masayoshi Ohira's trusted confidant and at the same time a foremost man of iron will in political circles. Adverse relations between Ohira and Miyazawa were literally inherited by Ito. Additionally, Ito experienced the disgrace of resignation from the office of Foreign Minister under the Suzuki administration due to Japan-U.S. problems. That scenario was written by Miyazawa who was then serving as Chief Cabinet Secretary.

Nevertheless, the confrontation between Miyazawa and Ito has been virtually mended through exhaustive efforts by Koichi Kato (former Director General of Defense Agency) and others. Recently Ito has been frequently meeting with Miyazawa and even gives the impression that he is investing his last passion as a politician in nurturing the Miyazawa administration.

What kind of political struggle scenes will be painted by Watanabe, Gotoda and Ito from New Year's Day to early spring? There are several key men on the second team, which makes it more difficult to have clear vision on this matter.

LDP COMPREHENSIVE AGRICULTURAL POLICY RESEARCH COUNCIL DISCUSSED

Tokyo SENTAKU in Japanese Jan 87 pp 126-129

[Text] The Comprehensive Agricultural Policy Research Council sits right in the middle of the LDP agricultural policy, proud of its authority.

A little over 240 Dietmen belong to this research council. There are 48 research councils to the Policy Research Council which bears the responsibility of the LDP policy decision making organ. The size of the Comprehensive Agricultural Policy Research Council is next largest to the Tax System Research Council which has 260 members. The number of the Tax System Research Council members has been increased temporarily for the review after next year of the large scale tax reform. Taking this situation into consideration, the Comprehensive Agricultural Policy Research Council is actually the largest policy design group in the LDP.

The Comprehensive Agricultural Policy Research Council has quite a history as well as numbers. The first chairman of the Research Commission on Rice Price (established in 1968), the predecessor of the Comprehensive Agricultural Policy Research Council was former Prime Minister Kakuei Tanaka. Heisuke Tanba, who has been the chairman for a long time until today, despite interrupted service, was acting like a Director-General under Tanaka. Every LDP strongman, namely Takeo Fukuda, Shintaro Abe, Michio Watanabe, Zenko Suzuki, and the late Ichiro Nakagawa, have had the experience of serving as Minister of Agriculture. These facts together show the importance of agriculture for the LDP Dietman, and outline the central position of agricultural policy as a support of the long-run conservative administration.

Besides the Comprehensive Agricultural Policy Research Council, "Agriculture and Forestry Subcommittee" (Genji Kondo, Chairman of the subcommittee) and Forestry Policy Research Council (Tsutomu Hada, Chairman) were established within the LDP Policy Research Council. The following is their political power relationship: Kondo is one of the vice chairmen of the Comprehensive Agricultural Policy Research Council, and Hada is holding a concurrent post of deputy chairman which is the position next highest in rank to Tanba. Within the organization of the Policy Research Council, subcommittees are established in response to governmental organs such as ministries and agencies and standing committees of the National Diet, and research committees are supposed to deal with basic policy from a comprehensive view point. However, in reality, the policy decisions that are made at the Agriculture and Forestry Related Joint Subcommittee, which combines the three subcommittees, become the "will" of the LDP Policy Research Council.

Because this "will" reflects the majority opinion of the LDP Dietmen, it is very difficult for the Party President and the three top-ranking officials of the party to overturn a decision. In other words, it is how the discussions are directed and how they are settled at the joint subcommittee that determines Japanese agricultural policy. The Comprehensive Agricultural Policy Research Council sits in the middle of it.

The Hard Core Are Hada, Kato, Okawara, Kaigaki, and Tamazawa

Summer is the time when the Agriculture and Forestry Joint Subcommittee most shows its energy during the year, when the government sets the purchase price of rice from the farmers based on the Food Stuff Control Law, and the period in which the producer price of rice is determined. Just as the Comprehensive Agricultural Policy Research Council started off from the Research Commission on Rice Price, rice is the foundation of food policy in Japan and the root of the agricultural policy in which rice consists of one third of the total agricultural output. As the staple food for the Japanese, rice is still today close to one third of the calory intake for the Japanese. Increased production and self-sufficiency in rice has the history of being national policy in the midst of war devastation and food shortage.

On the evening of July 31 last summer, a small meeting was held at a Japanese restaurant in metropolitan Tokyo. The one who invited people to the meeting was the Minister of Agriculture Kato, and those who were invited were Heisuke Tanba, Tsutomu Hada, Koichi Kato, Taichiro Okawara, Tokutaro Kaigaki, Tokuichiro Tamazawa, Takami Eto, Ryu Sato, and Michio Watanabe. Administrative Vice-Minister Hiroshi Ishikawa from the Ministry of Agriculture, Forestry and Fisheries, and Director-General of the Food Agency Yasuo Goto also attended the meeting. One of the people who attended the meeting said, "There was a common belief prevalent at the meeting that bargaining both inside and outside the LDP over the decision of the rice price in August will become tougher than at any other time.

Those who were invited to the meeting that day were powerful members of the LDP agriculture zoku (zoku--a group of Diet members who exercise in a particular field policy making expertise and contacts generally acquired through service as chairman or vice-chairman of the appropriate party policy deliberation committee), who were once called the "Agriculture Eight."

Setting aside Tanba, the elder of the agricultural policy as having special status, those who are taking the role of actual cart pushers of the LDP agricultural policy today are former Minister of Agriculture Hada; Okawara, who had left the position of the Vice-Minister, the highest bureaucratic position and became a member of the House of Councillors; and Kaigaki. In addition, there is Kato who holds the important position of Deputy Chairman of the Policy Research Council. Tamazawa, who had left the position of the Director of Agriculture and Forestry Subcommittee in the LDP and became the Chairman of the Lower House Committee of Agriculture, Forestry and Fisheries, too, now towers above his colleagues. It is not too much to say that the LDP agricultural policy is controlled by these five men.

To take leadership at the Agriculture and Forestry Joint Subcommittee where there are at times more than 300 in attendance and where hundreds of opinions come out, the leader must have the power of persuasion and the drive to persuade politicians with strong personalities. Both Hada and Kato have served as the Director of Agriculture and Forestry Subcommittee. They are so familiar with the agricultural policy that the top officials of the Ministry of Agriculture say, "They understand the issue completely with the same explanation as the officials in charge." They are in line with the "comprehensive agricultural policy faction" which aims for a balanced policy that gives consideration not simply to the trend inside the party, but also consideration to the international situation, finances, economic environment, and the trend of agricultural cooperatives. Overtly and covertly, they receive consultations from the Ministry of Agriculture, Forestry and Fisheries. For instance, when Kato was the Director-General of the Defense Agency, the gigantic figure of Hiroshi Ishikawa (then Director-General of the Food Agency) was often seen among the lobbyists.

However, the discussions within the LDP over the producer price of rice for 1986 displayed more complications than tacitly expected by the agricultural potentates in the party, the Ministry of Agriculture, Forestry and Fisheries, and officials of the agricultural cooperatives. The government which aimed for "the reduction of rice producer price after 30 years" purposely released the figure, "6.6 percent reduction in the original calculation" in order to gain support of public opinion. This figure stood alone and resulted in the leaders being put under heavy criticism at the Agricultural and Forestry Joint Subcommittee. At the forefront was the hard core question of rice Dietmen who are called "Viet Congs" or "Apaches" within the LDP.

During the double election campaign immediately before the rice price debate, a majority of the rice Dietmen who had been counting on farm votes had given campaign speeches in the election districts, saying, "We will never ever lower the producer price of rice." "We should not lower the producer price of rice and thus show our appreciation for leading the LDP to overwhelming victory." Such a "theory" apart from reason controlled the atmosphere of the joint subcommittee. The Minister of Agriculture received advice and recommendation for "the reduction of producer rice price by 3.8 percent" from the Rice Price Council. The proposed price reduction was turned down during the all night political negotiations between the government and the LDP from 8 August to the early morning of 9 August, and the producer rice price ended up being left as it was.

Nakasone Who Decided to Review Rice

Rice price is often called a "rice price drama." It is a cynical way of describing the history of the intertwined stakes of the three parties, namely the government, the LDP, and the agricultural cooperatives over the producer rice price, yet the producer rice price has settled to where it should have been. The aim of the Ministry of Agriculture, Forestry and Fisheries which advised the 3.8 percent reduction in producer rice price was to retain a slight reduction in the producer rice price with the understanding of some political factor within the LDP. The comprehensive

Economic circles have been under a taboo openly to criticize rice for a long time. Two years ago, agricultural organizations reacted strongly against the statement made by Bunzo Watanabe, then chairman of the agricultural Roundtable of the Federation of Economic Organizations and advisor to Ajinomoto, Co., Inc., that agriculture was useless, and confronted him with the movement for the boycott of Ajinomoto products. As a result, he was forced to resign the chairmanship. Sony Corporation, whose consultant Dai Ibuka said, "It is a national loss to hold onto something uncompetitive," had a hard time to settle the issue when the boycott movement arose. Yet, this taboo has crumbled.

Roll Back by Zoku Dietmen

In the midst of the series of offensives against rice, Nakasone has been acting shrewdly, taking advantage of the situation. Looking toward the Diet, a cabinet decision, in a statement against the liberalization of rice, said, "We should not liberalize rice. We want to maintain the fundamentals of the system." On the other hand, he made the strong statement that "I shall accomplish agricultural reform by using outside pressure," at Tanabata-kai, the gathering of freshman LDP Dietmen.

Recognizing that the flow of criticism on rice has accelerated, Nakasone has been choosing his words well in admitting the trend, but has avoided appearing to be in the front of the dispute. In the case of the RMA's petition, he gave direction to both the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Foreign Affairs "to try to take the best measure after consultation with the LDP."

On the other hand, he forcibly backed the reform agreement in his reply to the House of Representatives Budget Committee that "The price differential between the domestic rice price and the international rice price is great. Like other policies, agricultural policy must after reflection, reform itself in response to changes."

On the other hand, the LDP and the Ministry of Agriculture, Forestry and Fisheries engaged in a roll-back operation. At the end of October, immediately before the United States Trade Representatives (USTR) Yuetter was going to announce the ruling on RMA's petition, the LDP mission headed by Hada was sent to the United States. Okawara, Kondo from Agriculture and Forestry Subcommittee, and Yoshiro Hayashi, Director of the International Bureau, went with the mission, and explained the 2000 year history of Japanese rice paddy culture and the reality of production adjustment. Although the RMA decided to reject the action immediately after the mission went to the United States, it was decided that the issue of opening the rice market be on the negotiation table for the New Round of GATT to start in September in Uruguay. Because the focus of the New Round is agricultural products, this means that the United States has grabbed hold of a strong bargaining chip against Japan.

The Hada mission to the United States was sent after fierce argument inside the LDP. On 20 October, at Comprehensive Agricultural Policy Research Council's Subcommittee on Agricultural, Forestry and Fishery Products Import Liberation Issue secret meeting which even Dietmen's secretaries were not allowed to attend as proxies, young rice Dietmen such as Shin Sakurai pressed hard on the leaders saying, "Are we going to

agricultural policy faction also aimed to "alleviate excessive agricultural protectionism to a degree" by undercutting the myth that the "producer rice price would not go down." However, the leaders of agriculture and forestry were under strong fire from within the LDP, and they were not able to take the role as moderators. Thus this scenario misfired. Moriyoshi Sato, the former Minister of Agriculture at the time of the rice price dispute last year says, "Neither Miyazawa nor Takeshita took any action" to influence the event. At the time of the rice price disputes in 1985, Secretary General Shin Kanemaru and Chairman of Policy Research Council Masayuki Fujio called in Viet Congs, who asked for a price increase, one by one and persuaded them behind close doors. However, last summer, all three new leaders, Abe, Takeshita and Miyazawa tried to avoid any political mud and isolated the agriculture and forestry zoku.

As a result, the situation dashed off in the direction that the agriculture and forestry zoku were concerned about. That was "Unless the producer price of rice is lowered, the existence of the Foodstuff Control System may be at stake" (Hada). In September, the U.S. Rice Millers Association (RMA) filed an action based on article 301 of the United States Trade Act that the rice import regulation of Japan is an unfair trade practice. In Japan, Director General of the General Affairs Agency Tamaoki made a statement that "The government should purchase U.S. rice for foreign aid," expressing his desire that administrative supervision apply a scalpel to how agricultural cooperatives should be. Following Tamaoki, Vice President Kanemaru also dropped the word before he was hospitalized that "We must reform" although prefacing it by saying "in order as well to preserve the Foodstuff Control System."

Behind the movement to seek review of the rice policy, there was always a flickering shadow of Nakasone, who, as Prime Minister, approved the decision for the producer price of rice to remain as it is. There is an observation that Tamaoki had obtained a prior O.K. from Nakasone when he made the series of statements. The "Maekawa Report", which sought administrative reform in agriculture, advocated achieving international competitiveness and made a strategic arrangement for agricultural reform. Because of coercive action to peg down the producer price of rice, the criticisms of the mass media were concentrated on the agricultural policy and of the LDP and rice, so the report waged action for reform is the chance of a lifetime.

Concerning RMA's action, one of the leaders of agriculture and forestry said, "Someone must have notified the United States." He views the situation as the beginning of the concerted action inside and outside Japan to destroy the status of rice as a sacred cow by taking advantage of the flashy administrative method of Nakasone who wants to gain points to prolong the life of his administration by "the final settlement of postwar politics" and the "Ron-Yasu relationship." Actually, along the same line, the Chairman of the Japan federation of Employers' Association Bunpei Otsuki at the LDP seminar in Karuizawa threw out the comment that, "Rice in Japan is nine times as expensive as rice in California." The Japan Committee for Economic Development and the Japan Productivity Center also started to develop "the theory of reviewing the Foodstuff Control System," almost saying that the United States' demand is the same as theirs.

tolerate the U.S. bluff diplomacy? There is no need to visit the United States." Hada, et al said, "Unless we go, the United States may consider that Japan tolerates the liberalization of rice," and tried strenuously to calm them down.

The Ministry of Agriculture, also took seriously the change of climate concerning rice. In the end of November, the Ministry of Agriculture started a drastic review of the long-term outlook for agricultural policy upon the "Fundamental Direction of Agricultural Policy for this 21st Century", a proposal by the Agricultural Policy Council (an advisory organ to the Prime Minister) which is the most authoritative council on agriculture.

This mid-term report emphasized the need to 1) review the price policy including the Foodstuff Control System, and 2) promote the structural policy of agriculture. For rice in particular, it boldly sets forth not only a plan to realize a (low) level of rice price which would increase the share of the nucleus of farm families that hold the future of rice farming, and the establishment of self-adjustment of rice storage by the producers' organizations so that the surplus rice will not be a fiscal burden to the government, but also the need to review the basic framework of controlling the entire volume of rice as a mid- to long- term goal.

Almost keeping pace with the Ministry of Agriculture, the LDP is firming a policy to organize soon about four project teams on rice issues such as the Foodstuff Control System, and price and structural policy within the Comprehensive Agricultural Policy Research Council. Within the LDP, there is a tenacious reaction against Nakasone's style of sweepingly directing ministries and agencies and in trying even to stand apart from the LDP. The farm Dietmen would like to use the strong reaction against Nakasone as a spring board once more to gather the rice Dietmen at the Comprehensive Agricultural Policy Research Council to reconstruct rice policy under the leadership of the agriculture zoku Dietmen, and aim to demonstrate the "supremacy of the party."

Five Points to Divine the Fate of Rice

In 1987, the rice issue will enter a new phase. When the proceedings up to the rejection of RMA's action is considered the first round, the important task of how Japan can come up with a specific rice policy that is no longer a sacred cow will be the second phase. To divine the future of rice, it is essential to consider the changes of the LDP policy which has supported the agricultural policy until now, and LDP policy toward the United States.

When the voting results of the double election which led to the LDP's overwhelming victory are studied, even the agriculture zoku Dietmen such as Watanabe, Hada and Sato greatly increase their votes in urban districts rather than in rural districts. In the long-run, there is great probability that the focus of LDP policies will shift more toward urban districts. Nakasone's statements on "the 1986 political order" and "left-wing" after the election were quite symbolic. There is also the fact that Kenichi Omae, one of Nakasone's think tank figures, handed a report to the Prime Minister, pointing out before the double election the trend of farm votes to decline as a voting bloc for the LDP.

We should also pay attention to the development of trade disputes against Japan in the new United States Congress in January. If the rise of protectionism increases as the result of the Democratic majority in Congress after the mid-term election, an aggressive policy toward Japan even on the rice issue will heighten. If the Reagan Administration is weakened by the Irangate Affair, Secretary of State Schultz may come to exercise leadership as a key figure. Therefore, we must keep an eye on what Schultz says and does.

The fact that the United States agricultural export slump is severe will work to strengthen the pressure on Japan. U.S. agricultural exports for the fiscal year 1986 (ended September 1986) were down nearly 20 percent compared with the previous year, and last May, the net agricultural trade recorded a deficit for the first time since the end of World War II. In addition, the United States has an annual trade deficit of \$200 billion, and it does not seem to take strong steps toward business recovery. For the U.S. government which carries such circumstances on its back, the way for a quick fix of the trade problem is to divert the nation's dissatisfaction and attention toward "Japan, the foreign enemy."

The Agricultural cooperatives and the Ministry of Agriculture, Forestry and Fisheries have the view that the maximum rice export capacity of the United States is one million tons because short grain rice that Japanese eat as a staple is only grown in California. On the other hand, those researchers who observed the United States rice paddy cultivation, made a report that "In Texas alone, the land for potential rice paddies is several hundred thousand acres."

Based on these premises, the following future developments are in the rice issue.

- The focal issue for the United States and Japan would be whether the rice issue will go on the negotiation table at the New Round Talks. Minister of Agriculture Kato, who rushed to the United States in December, showed some flexibility toward the rice issue in that "It is future issue." However, he simply tried to refrain from stimulating the United States. He has no intention of responding to the United States. To change the Japanese attitude, the United States will link the rice issue with the beef and orange negotiations which will start in April.

- It is almost certain that the issue of the Foodstuff Control System will come into play after the administrative reform. Nakasone and LDP farm zoku Dietmen will carry out a secret feud over how to treat the Foodstuff Control System. Subtly entwining with the feud is the action of the Agricultural Policy Council. This council is supposed to hand in a report which gives the substance of a long-term outlook around November 1987. Therefore, many people within the LDP see that "Nakasone, who is facing the end of the Prime Minister's term, is trying to use it as a measure to prolong his term."

- Against the background of consecutive bumper crop years, it is certain that the producer price of rice will be reduced in the summer of 1987. The agricultural cooperatives and rice Dietmen cannot help but accept it.

- With the surge of the rice dispute inside and outside of Japan, there is a possibility that the United States will propose that Japan as a concrete plan import rice from the United States for industrial use. Demand for rice used as a raw material for miso and soysauce is strong particularly from the domestic food industry. There is a strong basis for the belief that the true intention of the United States in the rice issue is to export rice to Japan for industrial use.

- If the United States openly demands that Japan import staple rice, and, if the dissatisfaction of rice Dietmen and agricultural cooperatives explode, then the worst case trade clash between the United States and Japan is possible. Some agricultural cooperative leaders say, "If the United States unreasonably puts pressure on Japan, Zenno [National Federation of Agricultural Mutual Aid Societies Employees' Unions] has no obligation to continue to buy expensive corn and soybeans from the United States." Because Japan is the biggest customer for U.S. farm exports, a war of counterretaliation may occur. The Japanese domestic opinion will be split, resulting in confusion.

It is said that the Minister of Agriculture Kato who visited the United States also said, "Rice is Japan's religion," and asked the United States for self-restraint. Rice policy must be sought in this broad dispute by the Japanese people. The LDP agricultural policy which has been controlling the postwar agricultural policy cannot help but go through the "judgement" of the Japanese people just like the rice issue.

Anyhow, the LDP cannot avoid the rice issue in the unified local elections which begin this March. There is very little time to develop a basic direction for the rice policy.

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13078/12781

CSO: 4105/078

GENERATION CHANGE IN ZOKU MEMBERS REPORTED

Tokyo SENTAKU in Japanese Mar 87 pp 56-59

[Text] "Zoku Dietmembers" also caught up in a wave of generational change.

Four man group of the Soseikai conspicuously rise to the forefront

In "The Liberal Democratic Party Administration," co-authors Seizaburo Sato and Tetsuhisa Matsuzaki defined the LDP zoku Dietmembers as follows. "Among those parliamentarians wielding strong influence in a policy area of a ministerial unit who have had experience as one time Cabinet members or who are in their first term as cabinet ministers (generally speaking, leading figure parliamentarians)".

Within the long term power of the LDP administration zoku parliamentarians have weathered all sorts of changes. The bosses of the older generation are superseded by and give birth to new bosses. At the end of last year during the tax system revision and the budget formulation, the old and new generations of zoku Dietmembers intermingled and conducted their activities but certain changes could be noted compared to a decade ago. What is the makeup of the new leaders who, in this milieu of an unprecedented 300 seat parliament, seek to control these "Zoku".

Kajiyama is MITI and Kobuchi is Postal Services

At the end of March last year a party to "Celebrate the Sixtieth Birthday" of Seiroku Kajiyama (Tanaka faction) was held at a restaurant in Akasaka, Tokyo. Those beckoned by Kajiyama were, MITI Administrative Vice Minister Keiichi Konaga (at the time), and all the bureau chiefs of the same Ministry as well as the officials of the industry groups under MITI such as petrochemicals, automobiles, cement, electric power, iron and steel, and paper.

A total of four from the LDP, with the Nakasone faction represented by Hikosaburo Okonogi (former MITI minister) and Takeshi Noda, while Shinji Sato and Takashi Tahara were from the Tanaka faction. At the beginning of his remarks Kajiyama said, "I have asked the attendance of all those persons with whom I would like to maintain a lifelong relationship." It was an occasion that gave the appearance as if Kajiyama, had become the new "Don" of the MITI zoku.

Speaking of former MITI Dons", they were represented by such as the late Etsusaburo Shiina, Kakuei Tanaka, Masumi Ezaki and Toshio Komoto. These were individuals who were deeply entrenched in particular industry sectors and who, in their rise to their power positions were generally lone wolf operators. However, the current "new generation MITI zoku" have assembled along supra party lines and characterize themselves as comprehending the entire MITI policy spectrum while allocating specific duties amongst themselves. From about the time Kozo Watanabe (former welfare minister, Tanaka faction) took over the chairmanship of the trade and industry committee in 1979, this new wave came into being.

These individuals first target the position of MITI parliamentary vice minister, next they add to their strength by taking the position of chairmanship of the commerce and industry committee, and finally they polish it off with the chairmanship of the commerce and industry council. By rotating themselves into these positions they solidify their internal mechanism as MITI zoku. The current core is a four man group which has Kajiyama at the head with Noda, Tahara, and Hideo Watanabe (currently deputy chief cabinet secretary, Nakasone faction). Additionally, from time to time, in response to current problems, veterans of the ilk of Kabun Muto (Nakasone faction), Okonogi, Watanabe, and leader class Dietmen such as Sato, Kaoyu Yosano (Nakasone faction), Shinya Totsuka (Tanaka faction) and Shozo Harada (Miyazawa faction) become involved. Kajiyama boasts, "In MITI policy matters, there is nothing that is not discussed with us before the fact" but, judging from these actors in the play alone, it is clear that the Tanaka faction and Nakasone faction pretty well have a strangle hold on the situation. The commerce and industry sub committee chair and the parliamentary vice minister posts are now pretty much on the order of a rotating system for these two factions.

Next, what about the rapidly rising Postal Services zoku.

Tied into high technology and the new media industries sectors, it is the area reputed to be "the 21st century concessions" or the share of the 100 trillion yen industry". And, even here, the citadel of the Tanaka faction is unshaken. Setting aside the legendary strength of Kakuei Tanaka the big boss is Shin Kanamaru. Under his protective wings are Keizo Kobuchi (former director general of General Affairs), Tsutomu Hata (former minister of agriculture, Forestry and Fisheries), and Ichiro Ozawa (former minister of Local Autonomy). Hata is the one who took on the role of leading Kanamaru to the fore from the Postal Services zoku. Kanamaru is very masterful in the way he manipulates this three man team. In the case of abolishing the tax exempt system for postal savings, Kobuchi's role was to come out with directly opposing arguments. Ozawa dipped below the surface and worked at making prearrangements for the eventual "bottom line." Ozawa's plan was to recognize tax exemption but, in return, gain partial self-management of postal savings, an earnest wish of the Postal Services Ministry. Prior agreements by both the Finance Minister and Kiichi Miyazawa had been obtained. It was all done under the direction of Kanamaru.

Akira Fukida (Abe faction) vigorously waved the "opposition" flag until the very end but even he was aware all along where the bottom line was. The only thing is that this matter was leaked out beforehand and the only result was that Fukida lost face.

The Komoto faction which, at one time, appeared as if it would share the Postal Services concessions with the Tanaka faction, failed in its attempt last summer to maneuver Setsu Shiga in as successor to the chairmanship of the communications committee headed by Tetsuo Kondo and ended up being nothing more than an isolated skirmish with Tokuo Yamashita (director general, General Affairs Agency) who is on close terms with Kanamaru. Yamashita was also involved in the "Ozawa mediation" along with Yutaka Okano (House of Councillors, Tanaka faction).

The Nakasone faction with the personal encouragement of the prime minister has captured the post of postal services minister for two generations through Fumio Sato and Shunjiro Karasawa and is thus planning its inroads. However, their efforts have not been heavyweight enough to make them fully "zoku".

Other younger elements such as Eikiro Hata (Tanaka faction) and Katsuhiko Shirakawa (Miyazawa faction) are being nurtured along but they are no match for the threesome under the protective wing of Kanamaru.

Ozawa (1) is Construction and Hashimoto is Transportation

The construction zoku which has again returned to life due to the increase in public works and increase in domestic demand is still one under absolute control by the Tanaka faction through the major leaders Kanamaru and Takeshita followed by Eiichi Watanabe (former construction minister), Takashi Inouye (former construction ministry administrative vice minister, Upper House). Through a division of responsibilities: roads-Kanamaru, Housing-Watanabe, they have worked to divide up the public works budget heretofore while in many sectors financial routes have been left for the big boss Kakuei Tanaka. In the other factions, current construction minister Mitsuharu Amano (Nakasone faction) and former MITI minister Hajime Tamura (Abe faction) have a limited area of defenses but overall aging cannot be denied.

At that point it is said that Kanamaru and Takeshita have designated Ichiro Ozawa to be the successor. Their strategy is to follow Ozawa with Kenzo Muraoka and Kishiro Nakamura.

In the Nakasone faction a successor-like person to Amano resides in the person of Takami Eto (former construction minister) and there is some indication that they are trying to nurture Takeshi Noda and young Yoichi Tani. In the Abe faction there is a move on to place Hidenao Nakagawa in position but this is not yet definite.

Within the framework of the construction ministry budget the "Sewer system" which is an indication of an independant nation is still a

monopoly area of Hajime Tamura (current MITI minister, Tanaka faction). Besides hosting the gathering of the "Friends of water association" which is a gathering of concerned Dietmen, individuals such as Jushiro Komiyama (former postal services minister, Tanaka faction) and Kazuo Shioya (non affiliated) have been placed in key related positions and further efforts are being made to solidify their concessions.

In contrast to the strongholds of the Tanaka and Nakasone factions in commerce and industry, postal services and construction, the Fukuda and Abe faction strongholds were heretofore the transportation zoku.

Among the groups of the transportation zoku there is one known as the "Red Prince Association". It is an association that continues basing its strength in the Prince Hotel in Kioicho, Akasaaa. The zoku Dietmen normally conduct liaison with each other through Takashi Hasegawa (former Transportation Minister, Chairman of the National Railways Basic Problems Research Council), Kichizo Hosoda (former Transportation Minister, Chairman of the National Railways Basic Problems Research Council), Kichizo Hosoda (former Transportation Minister), Mutsuki Kato (current Minister of Agriculture, Forestry and Fisheries), Masajiro Shiokawa (current minister of education), Hiroshi Sanzuka (former transportation committee chairman), all Abe faction members. In the other factions there are only Hikosaburo Okonogi and Tokuo Yamashita. This group is attended by the Administrative Vice Minister of Transportation, the various bureau directors, councillors and from the National Railways, the director general and all members of the Board of Regents class. It would not be in error to say that all transportation related policy matters were, for the most part, settled on by these members.

However, even here a new wave has moved in. One reason is the "June 3 war" between Kato and Sanzuka which dissipated the strength of the Abe faction, but even more important is the fact that Nakasone appointed Ryutaro Hashimoto (Tanaka faction) to the post of Transportation Minister. Kato, who was retained in the post of Minister of Agriculture, Forestry and Fisheries, in his first utterance is said to have blurted out with, "The fortress I have built is going to crumble." It is clear that Nakasone had made inroads into the Fukuda-Abe power of the Transportation zoku.

As expected, the personnel actions of the new National Railways Corporation were handled by the Nakasone and Hashimoto combination. Added to these were Okonogi and Yamashita while the Abe faction was practically completely left out. It is true that there is much talk within the Abe faction having to do with obtaining concessions but Hashimoto makes no attempt at reorganization of the Transportation zoku by attacking the chinks in its armor.

We cannot talk without mentioning the one other "zoku" with which Hashimoto is involved, the Welfare-labor zoku. This zoku is also on the verge of a generational change.

With experience as a Welfare Minister, Kunikichi Saito (Miyazawa faction), Masami Tanaka (Abe faction), Torao Ozawa (Tanaka faction) and Ryutaro Hashimoto are called the "Four Emperors of Social and Labor." "Not only can there be no movement or change in welfare policy matters unless they are weighed by this meeting of four bosses" (according to a welfare ministry official) but these four have come to have considerable influence even in personnel appointments in the Welfare Ministry. But a change in the power balance among these four emperors came about as a result of the "Health Insurance Diet Session" in the fall of 1984. Ryutaro Hashimoto, using the power of the then chief of the General Council, moved to make adjustments with the Japan Medical Association and the opposition political parties to materialize the revisions in the health insurance law sought by the Welfare Ministry. His personal strength, be that as it may, with Saito and Tanaka aging and with Ozawa having been succeeded, the position of boss can be said fell naturally into the hands of Hashimoto.

Conversely, Hashimoto is trying to effect the following. Gathering together Yuya Niwa and Takujiro Hamada of the Miyazawa faction and Sukenari Nagano of the Nakasone faction he has convened a Dietmen's study group for medical and environmental health matters and has embarked on nurturing a youthful group. There is evidence in the group that factional considerations were taken into consideration.

As far as social-labor zoku are concerned, such elements as Saburo Toita (Tanaka faction), Juro Saito (Tanaka faction, current Minister of Welfare), Masakata Tozawa (Miyazawa faction), Jitsuo Inagaki (Nakasone faction) are eyeing to be the next power elements.

Room for a dark horse in Tax Research

In the past, along with the commerce and industry and construction zoku, the agriculture and forestry zoku were said to form the three legs of the three most lucrative of zolis but a layer of this lucrativeness has now been striped off.

In contrast to the powerful elements comprising those who came through the agriculture, forestry and fisheries ministry ranks such as Tokutaro Higaki (former Postal Services Minister, Nakasone faction), Taichiro Ikawara (Tanaka faction), Hyosuke Niwa of the General Agricultural Policy faction (former director general of National Land Agency, Komoto faction), Michio Watanabe (former finance minister, Nakasone faction), such individuals as Tsutomu Hata and Koichi Bato (deputy chief, Policy Research Council, Miyazawa faction) and Tokuichiro Tanmazawa (Abe faction) have come to the fore. Added to this is Takami Eto and the group is often referred to as the Agriculture and Forestry Eight Man Group. However, there are others such as Motoji Kondo (Miyazawa faction), Kosuku Hori (Tanaka faction) and Tadamori Oshima (Komoto faction) who are surging into prominence. Constituting the backbone of these individuals' maturation is the awareness that subsidy administration alone will not sustain future agricultural policies.

Zenko Suzuki still remains the ultimate power in the fisheries zoku which is closely allied to the agriculture and forestry zoku. Under his sphere of influence in the same Miyazawa faction are, Fumio Abe, Fujujiro Kikuchi and Genjiro Kaneko. However, due to the resistance of Koichi Hamada, aka Hamako (non affiliated) and Muneo Suzuki (non affiliated) the new generation's war over concessionary rights is believed will intensify.

While it is different from a dividing up of responsibilities, education zoku has a relatively high degree of unity. This is because when it comes to a showdown with the Japan Teachers' Union, all members, as one, becomes education hawks.

Even this education zoku has seen the demise of the Hirokichi Nadao and Michita Sakata era and, in the past 1975 period the following six Dietmen have come to exert their power, Toshiki Kaifu (former education minister, Komoto faction) Takao Fujinami (former chief cabinet secretary, Nakasone faction), Yoshiro Mori (former education minister, Abe faction), Takeo Nishio (Miyazawa faction), Yohei Kono (former director general, Science and Technology Agency, Miyazawa faction) and Hiroshi Sanzuka. The current status is that this group is being chased by Yasushi Nakamura (Nakasone faction), Kunio Hatoyama (Tanaka faction), Hajime Funada (Tanaka faction) and Kazuya Ishibashi (Abe faction).

There are little concessionary benefits for the education zoku. However, in terms of assistance to private schools, university guidance and school lunch programs, there is an established route so they are not merely being ornamental with their titles as "educational expertise"

At present, in the area which is said to be the most difficult to nurture zoku Dietmembers is in the national defense area. As if to exemplify this Asao Mihara's (former director general, Defense Agency, retired) existence is big.

Last year, on December 4, a "Party to celebrate the new beginnings of Asao Mihara" was held at a downtown hotel. For a retirement party it was most unusual to have both the Prime Minister and the Party Secretary General hurry to attend. Partly, it was due to the entreaties of Taku Yamazaki (Nakasone faction) who claimed "We want Mihara's good offices in the future." Not only in the area of waving the flag to get increases in defense expenditures, there is no one better at making adjustments within the government or in the LDP than Mihara. Perhaps it is to say it was a vivid display of Mihara's prestige as a veteran of the Diet chamber confrontations.

But the whole of the Defense Agency cannot be left in the care of Mihara alone so there is a sincere effort in nurturing a younger group. Among the core of the younger elements in the defense zoku are, besides Yamazaki, Koichi Kato and Sohei Miyashita of the Miyazawa faction and Motoo Shiina (Non aligned) who are at the head of the line. If we look at settlement of the 1% parameter problem of the end of last year, the government's evaluation of "the validity of arguments" is particularly high as far as Shiina is concerned.

Now, finally, let us look at the financial zoku. Rather than to refer to them as financial zoku, it is perhaps more appropriate to call them "tax research zoku".

As it was clearly evidenced in the tax system revision work at the end of last year, the LDP Tax System Research Committee, which is the main arena of the tax research zoku, gained an absolute position of superiority over the government tax research committee and has within its grasp the authority over decisions concerning even the minutest of details of the tax. In contrast to the efforts of other zoku who have to engage in battles to get budgets, the tax research zoku utilize to the fullest their authority to reduce or exempt from taxes and are distributing "subsidies at the revenues level." If we take up the example of sales tax, whether a product is to be taxed or exempted is a matter of life or death to the industry so, while the "vote" is a fearful thing, it can at the same time represent a powerful political tool.

The LDP Tax Research Committee, because of the magnitude of its authority, does not make internal personnel appointments, but rather, the authority of the time influences the choice of the prime minister. Since the establishment of the LDP, when, for the first time, Masayuki Fujio (Abe faction) was reappointed to a third term as chairman of the Policy Research Council, he forcefully pulled in Mutsuki Kato of his faction as chairman of the Tax Research committee. This time Sadanori Yamanaka's return to the chairmanship of the tax research committee is the result of one clarion call by Nakasone. The position of deputy chairman is treated as a cabinet level appointment and is in keeping with factual power balances.

Yamanaka, along with deputy chairman Tatsuo Murayama and sub-committee chairman Ganri Yamashita constitute the "Tax Research Triumvirate". At the start of the LDP tax research discussion, the prime minister called these three to the official residence and with gravity reminded them "Tax system revision is my biggest and final work."

There are no others who carry more weight on tax matters than these three. Nakasone was also well aware of this. Stated in another way, if the judgments of these three are in error, there is no one capable of applying the brakes.

However, in this tax system revision deliberation, while hardly important enough to stand near Yamanaka's footsteps, there were some young elements who emerged trying desperately to make inroads. They were Nobutaka Machimura, Koji Omi (both of the Abe faction), Takujiro Hamada (Miyazawa faction), all second and third term electees to the Diet. However, there is still a gap. Between these young elements and the veterans are Yoshiro Hayashi (former welfare minister, Tanaka faction), Takeshi Noda and Yuji Tsushima of the Miyazawa faction and Sohei Miyashita who will likely become the core. The only thing is that since the tax research personnel actions are so closely linked to the power relationships of the time, there is a possibility for the emergence of a dark horse type of entity onto the scene.

Those born in the Showa era now hold center stage

As a result of the recent Upper and Lower house double elections, the political world has generally turned younger. The LDP zoku Dietmembers, with the exception of the tax research zoku and a few others have all now become persons who were born in the single and teen digits of the Showa era. If we were to summarize; Kajiyama, Ozawa, Haneda and Hashimoto of the Tanaka faction, Kato of the Suzuki faction, Sanzuka of the Abe faction, Fujinami of the Nakasone faction and Kaifu of the Komoto faction are the "neo-new leaders" who seek the leadership in the next era after the current "new leaders" go their way. These neo-new leaders have gone their individual routes in establishing zoku in areas of their particular expertise and are now establishing bases of power for policy decisions and mediation in power and authority struggles. In particular, Hashimoto and the three others of the Tanaka faction are all directly involved in the establishment of the Soseikai. They, by their participation in the establishment of the Soseikai, created the wave within the LDP for a generational change and through the power of Kanamaru and Takeshita at the backs, became central figures as Diet zoku.

Both the government and industry in eyeing "post Nakasone" are sniffing around in earnest as to who among the new leaders will have influence and will work to place such individuals as coordinators for the Diet zoku members. With a political generational change and with government and industry working as one will create the emergence of new power leaders.

The only thing is that relying solely on the power of the new leaders is equivalent to "Having the help of a great parent" and will not relate to one becoming a power factor. Haneda and Ozawa comment on their success by saying, "First of all, from the time we were first year Dietmen, we appeared at all committee meetings and regardless of how seemingly useless the task, we did our best at it. Next we study in at least two committees and gain the confidence of those with whom we work. Confidence cannot be gained by giving tips to everyone. Next, routes are established into the Finance Ministry because the purse strings are held by the Finance Ministry, don't you see."

The most important point is the ability to look over the entire situation and catch the flow. Next is the ability to find the point of concession. We could condense it down to having a feel for balance. Those individuals who, when they get involved in one thing, are unable to see the whole picture, cannot aspire to being a leader of the "zoku."

Whatever the case may be, some of the above will control the generation following next generation of new leaders.

9980/9190
CSO: 4105/104

'JAPAN MONEY' IMPLICATED IN HIGHER YEN TREND

Tokyo SENTAKU in Japanese Feb 87 pp 78-81

[Excerpt] As a company gains more international competitive power, it acquires a surplus in the general account due to increased exports. As a result, the price of yen increases. It is expected that the Japanese economy will repeat this cycle for some time in the long run. When the trend of the strong yen continues, the balance of capital will also run a surplus and direct foreign investments will rapidly increase, which will in turn bring about the "hollowing-out" of domestic industry.

What is restricting the Japanese economy even further is what is called "Japan Money," or Japanese institutional investors. There is no doubt the fact that Japanese large banks and large industries are turning into speculative businesses, and the speculative selling of dollars is accelerating the trend of the strong yen even further.

If this situation continues, the institutional-investors-a-traitors" theory will soon appear, since "they keep manipulating stockjobbery without any regard to the trouble that the Japanese economy is having."

Triggered by Life Insurance Companies "Hedging"

Let us first take a look at how "Japan Money" took part in bringing about the highest price of the yen which was recorded on 19 January.

The trend of the strong yen--which reached the rate of one dollar bring equal to 150 yen was brought about first by the high deutsche mark in Europe and then by selling of dollars by Japanese institutional investors such as life insurance firms. Both of them were the result of the energy which had been saved since last autumn by the stabilized exchange rate of the yen.

The high deutsche mark, in fact, was a phenomenon taking place behind the scene of the stabilized yen. With the worldwide surplus of money, investment money is always seeking a destination. When the yen-dollar relations became stabilized due to the agreement reached by Finance Minister Miyazawa and Treasury Secretary Baker, speculative money had to go to the mark. However, if the mark's price goes up, the relative price of the yen appears to be lowered. This relative price of the yen made the yen unstable, which eventually

becomes the fact or for raising the price of the yen. Therefore, there is a paradoxical structure in the exchange market that the stabilized yen creates the unstable yen.

The same can be said for institutional investors. One factor which had been stabilizing the price of the yen since last autumn was the demand for dollars caused by investment in foreign bonds which was activated again. Japanese institutional investors, such as life insurance firms, cannot use the abundant money which was collected and unable to be placed within Japan. Therefore, they invest it in foreign assets such as United States treasury bills. Roughly speaking, Japan is using for investments in foreign securities the same amount of money that was earned from the trade surplus, making a rough equilibrium between the inflow and the outflow of money.

Therefore, as long as investments in foreign bonds, which transform the yen into the dollar, are actively pursued, the fluctuation factor for the exchange rate in terms of real demand should be neutral. The value of the yen climbs when cautious institutional investors start "hedging" by selling dollars to buy the yen, thinking that it's risky in the long run to invest in the dollar based assets.

The current increased price of the yen was accelerated by this hedging. The "naked (without exchange cover) investments in foreign bonds" which had been supporting the stability of the yen's price are the potential factor causing hedging. Here lies the structure in which stability becomes the cause of the next cycle of instability.

Life insurance firms are irritated about the self-restricting conduct which accelerates the depreciation of foreign bond assets that they have due to the "sales of hedges" causing the higher price of the yen. Due to the high price of the yen since the year before last, life insurance firms had about 70 billion yen's loss due to the high yen at the March closing. This should have taught them a lesson, yet, since last summer, with the impression that the yen has reached the highest price it can get, they began active purchase of foreign bonds again. Then came the second period of the high yen. Those who are involved blame the monetary authority, saying, "We were deceived by the Miyazawa-Baker agreement," but is it not a little off the mark?

Someone in securities firms said, "When we buy dollar denominated bonds, the interest rate is about 3 percent higher than the domestic bonds. Even if the price of the yen increases a little, the result will be about the same as investing in Japan. If the price of the yen decreases, the attraction will double. Since the annual interest rate for foreign bonds was around 40 percent until the time of G5 in the autumn of the year before last, the institutional investors cannot seem to forget that taste."

A cautious investor would, at the time of buying foreign bonds, sell future dollars. This is a method to buy dollars with yen, then with these dollars, buy foreign bonds, and at the same time, reserve in advance (a forward exchange contract) to convert into the yen from the dollars earned as interest payments of redemption. With this method, there is no danger of

losses caused by the difference in exchange rates, but the interest earned will be just about the same as that of domestic bonds therefore, there is no thrill.

Therefore, if you want "delicious investment," the only way is to buy bare foreign bonds without exchange cover. "If you want a good investment, you should first buy bare foreign bounds and, just when the yen begins to drop, reserve the forward exchange contract (hedge). This way, you can have both advantages of interests and exchange rates. But if you do hedging after the yen becomes strong, it is too late. That will lock in the loss. However, if you don't do hedging because you are afraid of losses, and if the yen becomes even stronger, that will be the worst. This explains why life insurance firms and trust banks rushed into hedging to sell dollars." An exchange dealer said.

However, it is totally impossible to put hedges on all the foreign bond investments of life insurance firms which totals more than 10 trillion yen. First of all, if such a thing is done, the price of the dollar will take a nosedive. Mitsuyuki Tsuchida, chairman of Life Insurance Association and president of Meiji Mutual Life Insurance Co., says, "We have only done a little hedging." Yet, life insurance money is gigantic enough that even a little hedging can accelerate the trend of stronger yen.

Because of the high yen which was brought about by "a little hedging," the overwhelming majority of foreign assets without exchange covers greatly decreased. Here is a vicious circle in which an attempt to avoid a loss brings about a bigger loss. The institutional investor, life insurance firms are falling into a trap of self-destruction.

Top Earner In Banks

It is not just life insurance firms. Recently, even banks have transformed themselves into speculative business, contributing (!?) to the enlargement of the "contradiction" of the Japanese economy.

What changes stability into instability is the speculation in the exchange market and the speculative movement of capital. During the current phase of the strong yen, all speculators sold dollars, and a battle was fought between the government which tried to maintain the yen's exchange rate in the foreign exchange market and speculators who tried to gain profits by changing the exchange rate. It was a fateful confrontation between the government, which hopes for stability in light of running the country's economy, and those who are involved in exchange transactions, whose business cannot go on with stability. However, what is ironical is that even exporting firms and institutional investors, who are supposed to be able to profit from the stable yen or even low price of yen, transformed themselves into speculators and led the way in selling dollars; such is the current conditions of Japan.

Although about the same amount of money as earned by exports is being allocated to bonds in dollars mainly in the United States, each firm rushes into selling dollars every day, thereby accelerating the trend of the strong yen. And in this structure, they are depreciating their own assets in dollars.

Take banks for instance. Rearrangement and enlargement of dealing rooms have become almost a fad not only in large city banks but also throughout financial circles. In a spacious room without any partitions, computer displays showing foreign and domestic exchange rates and interest rates are lined across the room. Dealing rooms are now the place where most profits can be generated for banks. Since large firms began to stay away from banks due to their surplus money, banks' preferred customers became small and medium size enterprises. High income Bank employees are now diligently visiting small and medium-size companies, but it is natural that this way their profits are less than the time when they used to deal in huge loans with large firms.

For banks, the traditional method of making profits from interest by loaning money has come to lose profitability. Therefore banks are now focusing their attention on the world of money game where they can make money by moving money by themselves in the exchange and bond markets. In exchange transactions, one million dollars is regarded as one unit, and normally 10 units are sold or purchased at one time. With ten units = 10 million dollars, even if the spread is only 0.1 yen, the return will be one million yen. In the traditional business, in order to gain one million yen in profit, it was necessary to collect savings of 100 million yen, find borrowers of the money, and wait for one year.

In the money game, there are several such business chances every day. It is therefore very suitable as work for workers with high salaries. Even if they secure a spacious room in the most expensive area of Tokyo and equip the room with computers and various terminals, the profits can easily cover the costs.

Furthermore, in this business, unlike making loans, there is no need for actual money. For each exchange dealer, a limit of buying and selling called "capital position" is given. Depending on their past achievements, some are given ten units or others are given twenty, etc. Within this limit, they can buy and sell freely. In the current phase of the high yen, the dealers' position for selling dollars were expanded greatly, yet it is not that they are actually using more and more cash. Even if they sell, they buy back by the settlement day of exchange dealing. If they sell again, there will be a perpetual chain, and no need for cash. It is basically different from exporting firms earning dollars by exports and selling them in the market. It can be said that as long as they keep selling and buying, banks will always have limitless money for speculation.

The reason why banks received permission to have such "positions" was originally to tide over the orders from customers. When there was very little amount of dealing and the market was not possible to conclude the deal immediately. Therefore it was necessary for banks in order to make deals smooth in the market; but as the market matured, the "positions" became independent and have now become a powerful weapon in the money game.

There are two kinds of banks' exchange dealers. They are: the customer dealers who connect customers' order with the market, and the dealers who

estimates the selling and buying rates on their own using their "positions." The big stars are those dealers who can decide the rates on their own with "positions." They are the directors of the money game and at the same time the biggest money makers in banks.

With One Firm, Power Is As Great As Bank Of Japan's Intervention

Recently, those who can decide selling and buying rates on their own using "positions" are not just bank dealers anymore. In April 1984, "principles of real demand in foreign exchanges" was abolished, which made it possible to buy and sell without any endorsement for the exchange transactions with foreign currencies, such as settlements and remittances for imports and exports. This was the lifting of the ban on exchange speculations in Japan. This was timely with the trend toward the free economic structure and deregulation of the exchange market. Since then, one organizational investor after another, such as trading firms, manufacturers, life and casualty insurance companies, began to participate in the money game. It is said that the money spent in speculation daily is about 150 billion dollars.

Take exporting firms for instance. The strong yen since the year before last gave the strong impression that the role of leader in the exchange market shifted from banks to general firms and institutional investors. The household electric appliances manufacturers Sharp Corporation, which is called "the champion of western," Japan opened a dealing room within the main office in Osaka in February last year and began exchange dealings on a full scale. Since the company received a severe blow in their exports in the previous year due to the low dollar and the high yen which were brought about after G5 meeting, they thought of making up for the loss with exchange dealings. Opening a dealing room immediately was just a decision that Sharp Corporation is likely to make, since they have always been sensitive to exchange transactions. If they lost due to the strong yen, they think of a way to win due to the strong yen. Not only Sharp Corporation, but most of the Kansai region companies acted quickly, too. "We are not engaged in exchange speculation. We do participate in the market, but we do not consider ourselves as participating in buying and selling. We are merely reserving forward exchange contracts as a means to cope with the strong yen trend," says Sharp Corporation, which dislikes very much the idea that they are regarded as the contributor to the high yen through their speculations.

However, the bank employee who receives orders from Sharp Corporation said, "Sharp is a very aggressive buyer and seller. When they think it is the right time, they give us substantial orders. We can feel their intention to lead the market." It is said that the amount of capital that Sharp is investing in the market is quite large, and it is becoming conspicuous as a "big player" in the market. Those who are knowledgeable about the market say that the remarkable performances of Sharp Corporation in the market owes greatly to a young in charge of stockjobbery, Mr. Masaaki Sakura, a chief clerk in the capital division.

The household electric appliances industry is one of the typical industries whose performances are deteriorating due to the strong yen. Such firms buy and sell in the market, being fully aware that they themselves are contributing

to the trend of the strong yen. This contradiction itself is the clear picture of their self-destructive conduct.

About Sharp Corporation, some people say, "Buying and selling are not something you do after talking with others. It is not something that you decide after consulting your superior. It is better to leave everything up to intuitive young people. However, the company may feel a little uneasy this way. Sharp Corporation is doing well in this respect, but we are not sure how they will do in the future. Right now, Sharp Corporation itself is separating principles and reality and letting young people buy and sell freely. But once the company starts to put restrictions on them--because the company does not like the idea of being regarded as a speculator--it may become difficult to keep doing what they have been doing."

On the other hand, in a steel trading firm, Hanwa Industry, which is considered "the champion of east in Japan," the president himself, Mr Shigeru Kita (61 years old), stays in the dealing room all the time and takes an active part in buying and selling. Therefore there are few problems within the company. President Kita says, "The other day, an executive from Merrill Lynch the biggest securities firm in the United States, came to visit us, and said it is just like companies in the United States in which the president participants in buying and selling." This is too difficult a job to handle unless you are in the position with responsibility." The field of exporting steel had been originally closely related with exchange transactions. In addition he has had experience in commodity speculation such as in shrimp. Therefore he seems to be a quite intuitive stockjobber. At the highest, the amount of buying and selling sometimes reaches nearly 10 billion dollars. Therefore this company has as much power as the Bank of Japan.

Tokyo Market Surpassing New York

Sharp and Haswa. Neither of them is an unusual case. It's becoming a common pattern for sophisticated financial management, and companies which are ready to follow the see champions of the east and the west are increasing rapidly throughout the country. As the scope of the money game expands, more new stars will be born.

This is all based on Japan's surplus in general current accounts, and also the excessively high savings rate compared with other countries. As long as capital flows into institutional investors, Japanese speculators, in other words, Japan money, will keep expanding.

It is said that the Tokyo market has already surpassed the New York Market in terms of size. This is because the (volume) is rapidly (increasing). According to a survey last March, the (volume) of the Tokyo foreign exchange market was an average of 48 billion dollars per day (including direct dealings among banks). It has not yet reached the size of the London Market, 90 billion dollars, yet it is very close to the New York market, at 50 billion dollars. This survey, the Tokyo market had only 12 billion dollars, while New York had 26 billion dollars. With such a rate of growth, it is not surprising if Tokyo has surpassed New York by now. This is because participants in the market are increasing very rapidly.

However, with abundant capital in the background, if the price of yen goes up further in the long-term high yen, low-dollar trend, the Japanese economy will be damaged, this is the most absurd thing I've ever heard. Are there any good means to stop this vicious cycle of the self-destructive Japanese economy?

As often discussed, there are two methods. One is to expect the United State's economy to recover. If that is not possible, another way is for Japan to have "a little break" for a while. The "Maekawa Report" was provided as the prescription for that. However, the "structural reform" which was proposed in the report cannot be realized overnighnt just because it was declared to the world. Although the policy was made, the current situation is that before it is carried out, it's carried under the high yen and the low dollar trend.

In spite of the well known fact that the rapid rise of the yen severely damages Japan's economy 'Japan Money' is still uncontrolled today.

12545/12951
CSO: 4106/091

POSTAL SAVING SYSTEM SAID HEADING FOR DECLINE

Tokyo SENTAKU in Japanese Feb 87 pp 68-71

[Text] After a 100-year history of tax exemption, interest on postal savings will not be taxed as a result of the current tax reform. How will taxing this interest affect the mammoth postal saving system, which boasts the world's largest pool of funds--107 trillion yen of savings deposits? The Ministry of Finance [MOF] maintains that the postal saving system will be on equal footing with private banks and the effect will not be great because the system of exempting from taxation on interest earned on time deposits in private banks will also be abolished. Nevertheless, taking a wide view, one can see that the growth of the postal saving system will slow, and in the long run, the system will begin to shrink.

Looking back at the history of the postal saving system from a future vantage point, people will recognize that the sun began to set on postal saving when the tax-free-interest system was abolished in October 1987.

MPT Leaders Optimistic

When, at the end of last year, the LDP's Tax System Research Commission (Sadanori Yamanaka, Chairman) formulated the fundamental principles of "the first drastic tax reform since the 'Shoup Recommendations [of 1949]'" and the final decision was made to abolish the system of tax exemption for interest on postal savings and time deposits in private banks (interest will remain tax-free for some groups including the elderly and the physically handicapped), the leadership of the Ministry of Posts and Telecommunications [MPI] showed two different faces.

It was with a sad face that Posts and Telecommunications Minister Shunjiro Karasawa expressed regret at a press conference saying, "We did not have the strength to save the 100-year-old, tax-free-interest saving system. I really don't know how to apologize to all those who use the system." It appears that the MPT's actions were consistent with Minister Karasawa's statement to the press. At the height of the tax reform drama, the MPT kept constant pressure on its supporters in the LDP, and until the very end, maintained the position of stubbornly defending the tax exemption. Considering the particular circumstances under which the abolition was finally pushed through--for example, Mr Shin Kanemaru, the MPT's last ray of hope, was hospitalized at the climax of the controversy--Minister Karasawa's statement contained no falsehoods.

But on more private occasions, the faces of Vice Minister Shigeo Sawada, Postal Savings Bureau Chief Taizō Nakamura, and other leaders of the MPT were radiant, like those one would expect of victors. The reason is that, in return for accepting the abolition of the tax-free-interest saving system, the MPT won the following: (1) autonomous control of some postal saving system funds, (2) an increase in the limit on the amount of money which can be deposited in a postal savings account (from the present 3 million yen to 5 million yen), (3) an increase in the amount of money which can be loaned to a depositor by "Yūyū" loans (from 1 Million to 2 million yen) ["Yūyū" loan: postal saving system loan made automatically to a depositor to cover an insufficient balance in the ordinary deposit account, secured by time deposits], (4) permission to sell national bonds at post offices, and (5) permission to make loans secured by national bonds.

Obtaining the authority to autonomously control postal saving system funds is what brought the greatest joy to the MPT leaders. As is commonly known, no matter how much money the MPT collects, it must turn over all that money to the MOF's Trust Fund Bureau. The MPT, consequently, has had a "just-an-agency-to-collect-money complex;" autonomous control of funds is an answer to many years of MPT prayers.

In 1987, the MPT will manage 2 trillion yen (1 trillion of which must be used to underwrite newly issued national bonds). After 5 years, the figure will have grown to 15 trillion yen. In their hearts, the leaders of the MPT no doubt shouted for joy.

Other items than the autonomous control of postal savings funds, such as raising the limit for loans and sale of national bonds at post offices are what MPT has been strongly asking for many years. MPT calculated that even if it had to sacrifice the tax-free-interest saving system, it would still be much better off as a result of its gaining, in a single stroke, so many things it had wanted.

Although the expressions on their faces were grave, in their hearts the MPT leaders were smiling with glee. More than a few people think that the current tax reform has ended in a strategic victory for the MPT. With the funds it will control, it would not be impossible for the MPT to dominate the bond market if it seriously wished to do so. The MPT could also replace the life insurance companies and trust banks as the dominant force in the foreign bond market. If the MPT bureaucrats, whose prayer has been answered, come into the bond markets aggressively as if they were going to vent their long suppressed desire, MPT could become the largest "institutional investor." A view that MPT could become a threat based on the above assumption has been whispered.

Furthermore, there are people who are wary that the opportunity presented by the approval of loans secured by national bonds and by the approval of the increase in the limit on "Yūyū" loan size will result in a serious effort to loan money through the postal saving system. Those people fear that if the 22,000 post offices in Japan all at once start trying to make small loans, private financial institutions, like credit associations and banks will not be able to compete with them because of their great number and will sustain serious damage.

Same Tax on Interest Wherever One Deposits

Assuming that tax on interest is the same wherever one deposits, people conclude that the postal saving system will grow still larger. Some have even gone so far as to assume that, freed from restrictions and using all kinds of advantages, the postal saving system may completely change the existing financial system.

But will that really happen? The answer is "no." The view that the postal saving system poses a threat overlooks two important points.

The first is the breakdown of "demarcation system." The present system of tax exemption for interest earned on small savings actually forms the framework of the demarcation system supported by different financial institutions. A saver is permitted to deposit only up to 3 million yen in the postal saving system. A 3-million-yen limit also exists for both the time deposits in private banks on which the interest earned is tax exempt [maruyū system] and national bond accounts on which the interest earned is tax exempt [special maruyū system]. For this reason, people who want to take maximum advantage of tax-free interest saving must divide their savings. As a result of the current reform, however, interest will be taxed separately from other income at a uniform rate of 20 percent. Consequently, there will no longer be any reason to divide one's savings.

This change is extremely important. Because the tax on interest will be the same no matter where one saves, tax saving services will no longer be needed. Convenience will be the factor which determines where people put their money. Obviously, it is more convenient to concentrate one's savings in a single location than to go to the trouble of dividing them among several.

From the viewpoint of convenience, it seems highly probable that funds will concentrate in financial institutions where many people have accounts into which their salaries are deposited directly by their employers. In fact, there are some city banks which are carrying out important campaigns whose theme is that increasing the number of such salary deposit accounts is the post-maruyū measure.

In other words, it is highly likely that abolition of the tax-free-interest saving system will, in various ways, break down the demarcation system which have formed the basis of the financial order and will bring about a new kind of concentration of funds. A comparable phenomenon is the change in the retail business from the time when small shops were the main outlets to the period in which supermarkets and department stores are more important.

In the face of this change, the postal saving system will continue to be hampered by the 5-million-yen-per-person limit on the amount of money which can be deposited in a postal account. This limit will remain as an important difference between the postal saving system and private financial institutions. There is no such limit on accounts in private institutions; in such accounts, a person may deposit as much money as he or she wishes. Regarding this difference, the leaders of the MPT maintain that the increase in the limit on deposits to 5 million yen should adequately deal with the problem because the postal saving system is used by small savers.

Nevertheless, the 5-million-yen limit on postal deposits is not a small disadvantage when several factors are considered. For example, the average Japanese household has over 7 million yen of savings, and, contrary to the MPT's explanation many people using the postal saving system have large savings. It is not realistic to think that the postal saving system has been set completely free.

Some people hold the opinion that, in reality, there is no limit on postal savings deposits. These people think that since it is hard to believe that the limit has strictly been observed, it will make no difference whether a 5-million yen limit remains or not.

Perhaps there is some truth to their argument. But the imposition of the uniform 20-percent separate tax on the interest earned on postal savings deposits means that the postal saving system will have to accept auditing by the National Tax Administration Agency. In principle, after the tax exemption for interest earned on time deposits in private financial institutions is abolished, tax audits of savings in private financial institutions will no longer be carried out. Even going so far as to use a fictitious name should present no problem for a saver. The postal saving system will probably not be strictly audited either; nevertheless, for persons whose postal savings deposits exceed 5 million yen, there still will be a possibility of being discovered violating the law. The psychological effect of knowing this cannot be ignored.

The Interest Rate Liberalization Storm

The second point overlooked by the view that the postal saving system poses a threat is the effect of financial liberalization. Within this area, liberalization of interest rates on small savings is of crucial importance. So far, little progress has been made in liberalizing those rates in spite of much carrying on about the need to do so. The reason is simply the existence of the tax-free-interest saving system. Accounts under this system hold over 60 percent of personal financial assets. As long as the system remains, progress in liberalization of interest rates on small saving is extremely difficult.

But, because the tax free interest saving system will be abolished this October, most of the financial world thinks that liberalization of interest rates on small savings is about to make rapid progress. Yoshirō Araki (President of Fuji Bank), president of the Federation of Bankers Associations of Japan, has said, "The abolition of the maruyū system is closely connected with liberalization of interest rates. If the heavy weight of the maruyū system is removed, liberalization of interest rates will make rapid progress. Considering the example of the United States, it seems possible that interest rates on small savings will be completely liberalized 2 years from now in the spring of 1989."

Rela competition will finally occur among financial institutions. Only the fit will survive; unprofitable institutions will be weeded out by mergers. Soon after interest rates were completely liberalized in the United States, financial institutions competed fiercely with each other raising interest rates paid to depositors. Banks which could not compete successfully disappeared one after another. Now, even huge Bank of America is on the verge of a crisis.

The question is whether or not the postal saving system will be able to pay depositors rates of interest competitive with the highest rates paid by private financial institutions. If interest rates on postal savings are low, it is certain that deposits will rapidly be shifted into accounts in institutions paying higher rates. Does the postal saving system have the ability to pay competitive rates?

That will be decided by the yield on the deposits autonomously controlled by the MPT. If the MPT succeeds in earning high yields, the postal saving system will be able to pay depositors interest rates equal, or even superior, to the highest rates paid by private financial institutions.

Now, Let us turn to the question of autonomous control. As was mentioned earlier, the MPT will control 2 trillion yen in 1987. But 1 trillion must be used to underwrite newly issued national bonds; the remaining 1 trillion is the amount the MPT will really control. The amount controlled by the MPT will increase every year. In fiscal year 1991, it will reach 15 trillion yen, of which 7.5 trillion will actually be available to the ministry to invest as it wishes (the other half will still have to be used for new issues of national bonds).

It would seem that the portfolio assembled by the MPT officials will determine the yield on the invested postal savings deposits, or in other words, that the yield will depend on the ability of the officials to make good investments. But this is not the case. Although it has what is called "autonomous control," the MPT will be permitted to use its funds only for "principal guaranteed" investments such as national bonds, local government bonds, public and corporate [kōdan and kūsha] bonds, and certificates of deposit (negotiable deposits). This restriction is based on the idea that only completely safe investments should be permitted because postal savings deposits are the treasure of ordinary people. In effect, the MPT has "autonomous control" in which safety comes first.

Private financial institutions are much freer than the MPT to invest funds as they see fit. Of course these institutions attach great importance to safety, but at the same time, they can take risks on high-yielding investments. When two parties are forced to compete in the same ring the outcome is quite obvious.

MPT Postal Savings Bureau Chief Nakamura confidently says, "There is a 'principal guaranteed' restriction, but yields will still be much higher than in the past when funds were deposited in lump sums with the MOF's Trust Fund Bureau. We have consistently advocated liberalizing interest rates on small savings deposits, and we will be able to cope with liberalization." But can we really say so?

Again, let's refer to the experience of the United States. Since interest rates were completely liberalized there, banks have sought to become more convenient through tie-ups with other companies, such as credit card and insurance companies, and at the same time, have been increasing various handling fees in an effort to cover the higher cost of raising funds which has resulted from paying higher interest rates to depositors. The Japanese postal savings system, however, would encounter great difficulty if it attempted to raise fees. It is therefore at a disadvantage vis-a-vis private financial institutions.

Momentous Change Coming in 1990

When will the sun begin to set on the postal savings system? To be brief, in the spring of 1990--for that is when fixed amount postal deposits [teigagaku yūbin chokin: postal deposits in multiples of 1000 yen which can be withdrawn any time after 6 months or left deposited for up to 10 years] deposited in 1980 will reach full maturity. Nineteen eighty was a time of extraordinarily high interest rates in Japan when an annual rate of 8 percent was paid on both fixed amount postal deposits and bank maturity designated time deposits [kijitsu shitei teiki yokin: way of saving introduced by private financial institutions to compete with fixed amount postal deposits; deposits can be withdrawn any time after 1 year on a month's notice; maximum period of deposit is 3 years].

Maturity designated time deposits which is the longest of any kind of bank deposit, is 3 years and no bank time deposits deposited in 1980 remain today. In contrast, because fixed amount postal deposits take 10 years to mature fully, such deposits take 10 years to mature fully, such deposits remain from 1980. The controversy over the green card system [a proposed system by which cards would have been used to prevent savers from evading taxes on interest earned on savings exceeding the tax-free-interest limit] triggered explosive growth in postal savings deposits in 1980 that is still fresh in our memory. Although there is no accurate date, it is said that 80 percent of postal deposits are fixed amount deposits, a considerable portion of which was deposited in 1980. There is no doubt that the amount in question is on the order of several tens of trillions of yen.

These fixed amount postal deposits will reach maturity in the spring of 1990 when interest rates will be fully liberalized. At that time, if the rates offered by the postal saving system are lower than those offered by private financial institutions, there will be no way to prevent a mass exodus of postal savings deposits.

Last fall, the British financial world was shaken up by relaxation or abolition of regulations covering securities trading. For this reason, the deregulation was called "Big Bang." If the Japanese financial order is to be convulsed by a "Big Bang" of its own, it is highly likely that it will be the exodus of funds from the postal savings system in the spring of 1990.

The decline of the mammoth postal saving system will have a variety of effects on the flow of funds in Japan including an effect on the Fiscal Investment and Loan Plan. Saving patterns of individual savers will be affected too. Nevertheless, rationally speaking, it seems a welcoming event.

In business and finance, it is by no means healthy when government enterprises grow huge and oppress private ones. This has been pointed out again and again by the Ad Hoc Committee on Administration Reform and the Postal Savings Discussion Group. The ideal is that government enterprises should not go beyond providing what private business does not.

There is no doubt that anyone would disagree with this ideal. But the changes in the financial system should be as gradual as possible. The abolition of the

tax-free interest saving system will be trial for the postal saving system. It is important that policies be adopted which ensure that the scale of the system is reduced gradually rather than suddenly until it is carrying out its proper function, which is filling in gaps around private financial institutions. It is desirable that the MPT authorities recognize this as the proper function.

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CSO: 4106/098

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